Caisse de dépôt et placement du Québec

# Real Assets

## HIGHLIGHTS

| REAL ASSETS | 5 years | 2018 |
|---|---|---|
| $61.0 B<br>Net assets as at December 31, 2018 | 10.0%<br>Annualized return | 9.0%<br>Return |
| | $20.2 B<br>Net investment results | $4.8 B<br>Net investment results |

### 2 portfolios

**Real Estate**

**Infrastructure**

**Benefits**

- Attractive risk-return profile and substantial cash flows
- Diversification of the overall portfolio's risk
- Greater resilience to market swings and some protection of capital

As at December 31, 2018, Real Assets accounted for 20% of la Caisse's overall portfolio. It is comprised of two actively managed portfolios:

- **Real Estate,** which invests in buildings and real estate companies around the world;
- **Infrastructure,** which includes direct investments in companies operating infrastructure in developed markets, as well as in targeted growth markets.

Real assets play a critical role in the diversification of la Caisse's overall portfolio, as these investments are less correlated with global markets. Since real assets are less liquid than bonds and stock market portfolios, they provide stable current revenue and protection against the inflation risk associated with the commitments of several clients.

In an environment of fierce competition for real assets, la Caisse benefits from its comparative advantages to distinguish itself. It draws on the expertise of its team and operational experts, as well as its network of partners and ability to develop projects to conclude private direct investments.

## Market conditions

Over the last five years, real assets were of great interest to investors. There are several factors behind this, including low interest rates, the low volatility of real assets compared to other asset classes, as well as the cash flow stability and the protection against inflation they provide.

**Real Estate**

In Real Estate, capitalization rates were generally stable around the world in 2018. The transaction volume was down from 2017 levels, except in the U.S.

The U.S. real estate market posted sound economic fundamentals, with a stable vacancy rate and generally moderate market rent growth in the office sector. The industrial and logistics sector also remained solid in 2018.

In Canada, the office sector was resilient, with a generally low vacancy rate, while the industrial and logistics sector still posted a favourable dynamic. For shopping centres, the owners continued repositioning their strategy, which include a focus on diversifying the offer.

In Europe, market data are robust in the office sector in Paris as well as the main German cities, where market rent is progressing strongly. In growth markets, Brazil continues to benefit from an uptrend in market rents in shopping centres. In China, investors are more interested in strategies focused on development sites, as demonstrated by the weak growth in the volume of transactions in the main building categories.

**Infrastructure**

In infrastructure, activity in 2018 was down from 2017, but was sustained compared to the last 10 years, particularly in Europe and North America. Even though valuation levels were high from a historical perspective, the inflow of capital to this asset class reached record amounts, with nearly twice as much capital invested as in 2014.

The renewable energy sector remains by far the most active, accounting for 57% of the total number of infrastructure transactions in 2018. This is the result of declining production costs for sources of renewable energy that are becoming competitive against fossil fuels in an increasing number of regions.

Lastly, it is worth noting that even though the amounts under management in infrastructure increase continuously, investment opportunities are still hard to find because of fierce competition for quality assets. The amount of capital deployed (dry powder) by infrastructure funds also reached a new high. The general trend is toward larger-scale transactions.

# Portfolio returns

## REAL ESTATE

Managed by Ivanhoé Cambridge, la Caisse's real estate subsidiary, this portfolio includes properties and real estate companies in the office, shopping centres and residential sectors, as well as in the industrial and logistics sector. The investments, which target the most promising sectors in the main developed markets and certain targeted growth markets, aim to generate optimal risk-adjusted returns. The approach is focused on developing strategic partnerships and creating investment platforms to seize quality opportunities around the world. The portfolio has undergone a significant repositioning around key themes in recent years. These themes include a major shift toward the industrial and logistics sector, a program of innovative development projects and geographic diversification.

| | 5 years | | 2018 | |
|---|---|---|---|---|
| $38.2 B<br>Net assets as at December 31, 2018 | 9.8%<br>Annualized return | 10.7%<br>Index | 7.8%<br>Return | 12.0%<br>Index |

$13.4 B
5-year net investment results

### Five-year return

Over five years, the portfolio has posted an annualized return of 9.8% and generated net investment results of $13.4 billion. Office buildings in the U.S., France and Canada are among the properties that generated the most value added, as did residential properties in the U.S. and shopping centres in Canada. More recently, returns on investments in the industrial sector, in growth markets and in development projects also had notable positive impacts. The current return on assets held also provided a good contribution to performance. In addition, the portfolio's return posted a -0.9% difference with its index, which is due to a variety of factors, including a different geo-sectoral positioning and a more long-term debt structure for the portfolio.

$2.7 B
2018
net investment results

### 2018 Return

In 2018, Ivanhoé Cambridge's transaction volume totalled $16.6 billion. Of this amount, $7.3 billion stems from strategic sales made to reposition the portfolio. Investments totalled $9.3 billion and are concentrated along key themes that represent the shift toward the industrial and logistics sector, innovative development projects and increased geographic diversification, notably in growth markets. Following are a few highlights:

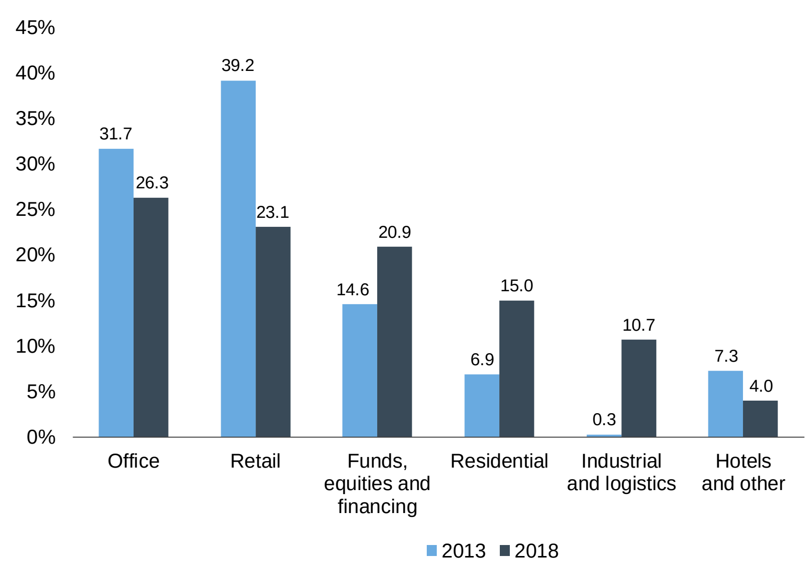
- Pure Industrial Real Estate Trust ($1.6 billion): Acquisition, in partnership with Blackstone Property Partners, of this trust that manages a real estate investment fund in industrial and logistics properties in Canada and the U.S.;
- Prologis: Creation of a partnership with this firm that has become a global leader in logistics real estate to develop and operate properties in this sector in Brazil;
- IDI Logistics ($2.3 billion at 50%): A partnership with Oxford, the real estate arm of OMERS, to invest in this U.S. logistics company and all of its assets, including 111 currently in operation and 35 development projects;
- Peel Logistics Property: Strategic investment in this company, which follows the 2017 launch of a vehicle targeting logistics properties in the U.K.;
- Texas Tower: Beginning of construction of a very high-quality 47-story office tower in downtown Houston that is aiming for LEED Platinum certification, in partnership with Hines, which will move its headquarters there, set to open at the end of 2021;
- Round Hill Capital: Creation of a partnership with this world-class company to acquire nine residential buildings with 362 units in Berlin, totalling €75 million;
- In Asia Pacific: Almost $2 billion in growth of investments and commitments in Australia, China, India, Indonesia and Singapore, mainly for logistics development projects and mixed-used projects, by our partners, LOGOS, Piramal and Chongbang;

- Targeted sales: In line with the portfolio repositioning illustrated in the following graph, the sale in 2018 of 19 assets in the U.S. office sector totalling $1.7 billion, and the sale of two high-quality shopping centres in Canada – Fairview Mall and Richmond Centre – for a total of $0.9 billion.

The portfolio's return was 7.8%, amounting to net investment results of $2.7 billion. It largely stems from the appreciation in the value of assets in the office, residential and industrial sectors. In terms of geography, it is worth highlighting the significant contribution of properties in the U.S., particularly in the residential sector, with solid performance from the Stuyvesant Town-Peter Cooper Village in New York.

In terms of sectors, office buildings contributed most to the absolute return. This is due to the sector's good performance, as well as the choice to prioritize investments in concluding development projects for innovative offices that meet future user needs, such as CIBC SQUARE, which is currently under construction in Toronto and has already pre-leased the entire first tower, the award-winning Duo project in Paris and River Point in Chicago. The difference between the portfolio's return and that of its benchmark index in 2018 is partly due to certain cyclical factors. The good annual performance of certain countries included in the index, but not in the portfolio, also contributed to the difference, as the index was more geographically diversified. In addition, the portfolio includes publicly listed companies that are subject to significant volatility, while the index does not include publicly listed companies. The portfolio initially presented a lower weighting in the industrial and logistics sector. However, it should be noted that this underweighting was reduced due to major portfolio investments made in 2018 in this rapidly growing sector. As shown in the following graph, its weighting increased sharply. The sector's weight jumped from 0.3% of the portfolio in 2013 to 10.7% at the end of 2018.

**Real Estate portfolio exposure by sector**
As a percentage of total assets (as at December 31)



## INFRASTRUCTURE

This portfolio includes stakes in companies operating various types of infrastructure. These tangible assets include wind and solar farms, electrical transmission and distribution networks, ports, airports, highways, and passenger transportation systems. Given that many of these sectors are regulated, the investments provide stable, predictable long-term revenues and a risk-return profile superior to other asset classes. They are also less sensitive to economic fluctuations and provide some capital protection against inflation.

| | 5 years | | 2018 | |
|---|---|---|---|---|
| $22.7 B<br>Net assets as at December 31, 2018 | 10.4%<br>Annualized return | 8.5%<br>Index | 11.2%<br>Return | 6.5%<br>Index |

$6.7 B
5-year net investment results

### Five-year return

This portfolio recorded net investment results of $6.7 billion and an annualized return of 10.4%. This performance can be attributed to the current yield of certain companies within the portfolio, especially those that operate with regulated and contracted assets. The contributions of HAH (Heathrow airport), Colonial Pipeline, London Array in the wind sector and Trencap (Énergir) are worth noting. This confirms the relevance of our strategy of focusing on quality investments that offer stable revenues over the long term. The performance is also a result of the increase in value of assets held, especially Airport Holdings, which operates the Budapest airport, Port of Brisbane in Australia and Invenergy Renewables. Since 2014, the portfolio has generated $1.7 billion in value added compared to its benchmark index due to the quality of partnerships in direct investments, effective monitoring of asset management teams and favourable geographic and sectoral allocations. For example, we note that the Energy and Industrials sectors, which have a heavier weighting in the portfolio than in the index, both had strong performances. North American portfolio assets also generated a return higher than the index, especially the Canadian assets.

$2.0 B
2018
net investment results

### 2018 Return

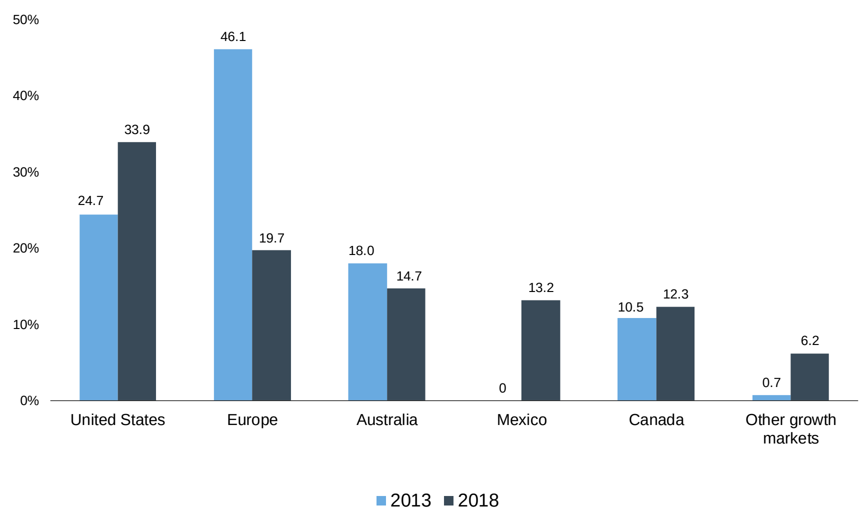
Over one year, the portfolio benefited from the same factors that contributed to its good performance over five years, namely a strong increase in the value of assets held, but especially a high current return. As such, the portfolio generated an 11.2% return and net investment results of $2.0 billion, outperforming its index by 4.7%. This represents $929 million in value added, most of which is explained by the increase in asset values.

In 2018, la Caisse has executed major infrastructure transactions, including:

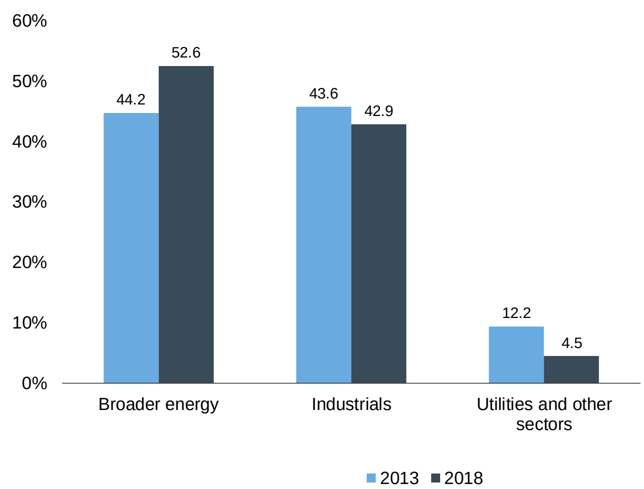
- Invenergy Renewables: A 53.6% increase in la Caisse's stake in this renewable energy leader, which is the largest independent private company in this sector in North America;
- Co-investment platform with FDN: Creation of a platform to invest up to US$1 billion in infrastructure projects and companies in Colombia, jointly with all the Colombian pension plans under the leadership of FDN;
- Student Transportation: Privatization and delisting from the Toronto Stock Exchange of this leader in school transportation that operates over 13,500 vehicles in the U.S. and Canada (Caisse 80%, Ullico 20%);
- Azure Power Global: A US$100-million investment to increase la Caisse's stake to 40.3% in this high-level Indian solar energy producer;
- Renewable portfolio in Mexico: Acquisition of 80% of a portfolio of wind and solar parks owned by Enel Green Power, through a platform shared by la Caisse and CKD IM.

In addition, la Caisse achieved some significant milestones in the Réseau express métropolitain (REM) project led by its subsidiary, CDPQ Infra. In addition to announcing the preferred consortia, it completed the project financing of $6.3 billion and broke ground in spring of 2018. The work is proceeding on all network branches, with the first trains planned to be operational in summer 2021.

**Infrastructure portfolio geographic exposure**
As a percentage of total assets (as at December 31)



**Infrastucture portfolio sector exposure**
As a percent of total assets (as at December 31)




## Investment results table for Real Assets portfolios

| As at December 31, 2018 | | 5 years | | | 2018 | | |
|---|---|---|---|---|---|---|---|
| Specialized portfolios | Net assets $M | Net investment results $M | Return % | Index % | Net investment results $M | Return % | Index % |
| Real Estate | 38,225 | 13,406 | 9.8 | 10.7 | 2,735 | 7.8 | 12.0 |
| Infrastructure | 22,741 | 6,748 | 10.4 | 8.5 | 2,036 | 11.2 | 6.5 |
| **Real Assets** | **60,966** | **20,154** | **10.0** | **10.0** | **4,771** | **9.0** | **10.1** |